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ABSTRACT

This document contains three papers from an international conference on "ways and means for more employment." The first paper, "Employment Policy Comparisons and Policy Advice" (Ulrich Walwei), covers the German labor market in the second half of the 1990s and requirements for longer-term employment success through coping with structural change and addressing employment possibilities for less competitive, low-skilled workers. The second paper, "Employment Policy Successes with Different Framework Conditions and Concepts" (Heinz Werner), considers the following questions: Are there constant "model countries"? Is a high level of employment necessary? What is meant by successful employment policy? What conclusion can be drawn from international experiences? What are the consequences of different wage-replacement benefits in the event of unemployment? The final paper, "Figures and Graphs on the Labor Market Development in Selected Countries" (Ingeborg Konig), contains graphs and charts focusing on the following: (1) unemployment rates in selected industrial countries, 1983-1999; (2) employment trends in selected industrial countries, 1983-1999; (3) employment rates in European Union (EU) states, the United States, and Japan in 1999; (4) gross domestic product and persons in civilian employment, 1983-1999; (5) growth rates of gross domestic product and civilian labor force in Denmark, Germany, France, Great Britain, Netherlands, and the United States, 1983-1999; (6) economic growth, employment growth, and change in unemployment in the European Union states, the United States, and Japan, 1991-1995; and (7) economic growth, employment trends, and unemployment rate in each of the European Union states, the United States, and Japan, 1986-2002. (KC)

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- observation of and forecasts for the German labour market
- labour market statistics
- labour market theory and policy
- evaluation of employment programmes
- regional and international labour markets
- occupation sociology
- research in skills and qualifications
- technological development and the labour market
- business and personnel management

Lessons We Can Learn From Other Countries

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policy advice – *Ulrich Walwei***
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framework conditions and concepts – *Heinz Werner***
- 3 **Figures and graphs on the labour market
development in selected countries – *Ingeborg König***

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Foreword

In September 2000 an international conference on the subject of "ways and means for more employment" took place within the context of the world fair Expo2000. This conference was organised by the Institute for Employment Research (Institut für Arbeitsmarkt- und Berufsforschung – IAB) and was initiated and funded by the Federal Ministry for Labour and Social Affairs. At this conference well-known academics from six countries debated national and supra-national labour market issues. The following report concerns the IAB's contribution to this conference. It was intended as an introduction and guide to the subsequent individual accounts of the labour market problems and successes of the countries dealt with at the conference, which were France (F), the Netherlands (NL), Denmark (DK), Great Britain (GB), the USA and Germany (D) as well as the discussion which followed.¹ Ulrich Walwei's and Heinz Werner's contributions to the conference have been revised as regards contents, taking into account critical comments by IAB colleagues. The data has been updated in the graphs and tables section.

1 Employment policy comparisons and policy advice²

A large number of studies conducted in recent years have produced extensive findings from comparisons of employment policy issues. What significance can these findings have for scientific policy advice at national level? This is to be expounded taking as an example the debate surrounding the trend reversal on Germany's labour market.

The German labour market in the second half of the 1990s: waiting for the trend reversal

In 1996 the Institute for Employment Research (Institut für Arbeitsmarkt- und Berufsforschung – IAB) was instructed to show strategies which would make it possible to cut unemployment by half in a reasonably short period of five years.

One key result of the simulation calculations was that there is no ideal way to overcome the crisis on the labour market. In view of the dimension of the employment problem, single instruments would simply be insufficient. Moreover, if individual measures were taken to extremes, repercussions and side-effects that are very difficult to estimate would have to be expected. The core statement resulted from this: only a balanced set of strategies (in the sense of a policy mix) would be able first of all to achieve a reversal on the labour market and then to make an effective and sustained contribution to tackling the employment crisis.

The study then goes on to show that the two sides of industry can make the main contribution to sustained employment growth and to the continuous reduction of unemployment. They have two starting points at their disposal for a collective bargaining policy geared towards the employment objective:

- Firstly, by means of voluntary, individual, flexible and reversible forms of working time reduction which are neutral in terms of revenue and expenditure, the collective bargaining

¹ The country studies can be found under <http://www.iab.de/iab/grauepapiere/expobcitreng.htm>.

² This chapter was written by Ulrich Walwei.

policy could help to reduce the average annual working time per worker, which is of importance for the employment threshold.

- Secondly, the collective bargaining policy could encourage the utilisation of the factor of labour by means of a wage policy which is moderate in the longer-term. In implementing a moderate wage policy at macroeconomic level it is of course possible to differentiate wages in different ways (e.g. according to sectors, regions and qualifications).

In addition to this the study made it clear that the state, too, has an important role to play as regards employment-policy. The task of the state is to set "employment-friendly" basic conditions for the labour market. Fiscal policy is of particular importance in this respect. According to the calculations, the extent to which the state intervenes in the business cycle, the way it uses its budget and how it finances its tasks are important for the development of employment. On the one hand, according to the study, positive employment effects result from restructuring measures on the revenue and expenditure sides, especially if public investments are increased. On the other hand, if the state budget is consolidated gradually, it is easier to manage the contractive effects associated with the reduction of the deficit than is the case with rigorous economizing measures.

This set of strategies, which is merely outlined here, is therefore by no means a short-winded fine weather programme. A reorientation with radical changes in fiscal and collective bargaining policies and greater staying power in the reforms were considered essential.

Two years later – unemployment had not fallen in the meantime, but had continued to rise – the set of strategies developed in 1996 was examined in the light of international experiences. Countries which had managed a trend reversal on the labour market were included in the comparison. The aim was to check the statements of the set of strategies and to expand the set to include such components that usually elude model calculations.

It rapidly became clear that an analysis of foreign labour markets would also fail to provide any patent remedies. However, the studies did show how other countries tackled a difficult situation and what strategies they chose.

As the labour market problems as well as the basic institutional and cultural conditions differ in the individual countries, as far as employment-policy comparisons are concerned it is above all a matter of understanding labour market developments and not copying systems. An effective policy mix must always take country-specific conditions into account, too.

In the case of Germany for instance the special situation following the reunification has to be taken into consideration. Since reunification Germany has shown considerable regional differences with regard to economic efficiency and labour market performance. Almost all data shows clearly that the transformation problems in the east are continuing to have an effect. In the wake of reunification, the *Länder* of western Germany experienced severe financial burdens and a delay in the economic recovery.

In 2000, another two years later, the progress on the German labour market is unmistakable. The longed-for upturn on the labour market is taking place. Reasons for this can be found on both sides of the market. The labour supply has stopped increasing, above all as a result of the demographic development. The demand for labour is being stimulated by strong economic growth, which has already led to a gradual increase in the employment figures. This could

speed up if the expectations of a larger growth than in the second half of the 1990s are confirmed.

Requirements for longer-term employment success

Once the trend reversal was completed, the focus of the employment-policy debate changed here in Germany. Now it is a matter of making a sustained upswing follow the trend reversal. Continuously increasing employment would help to reduce underemployment (this is the registered unemployed plus the hidden labour force) because the times of strain on the supply side of the labour market seem to be over. Nevertheless a high level of employment will not occur on its own, it will have to be brought about. What could be helpful in this respect is a look at the strategies used by other countries.

What is noticeable first is the fact that the labour market performance of these other countries is in a constant state of change. This has to do with different business cycles, but also with the structural change of the economies, which does not distribute the employment gains and losses equally.

In view of the extensive information available about other countries (e.g. data and analyses from the EU), national employment policy, too, is under greater competitive pressure. The diverse efforts aimed at benchmarking the labour markets provide a good example of this. Another example can be seen in the plans at European level to identify so-called "best practices" in employment policy. Both of these examples should help those responsible for employment policy in their decision-making. Like in the case of competition between firms, employment-policy competition also concerns movable aims. It can not just be a case of the less successful country wanting to have reached the position in five years where the more successful country is today. It makes at least as much sense to consider what long-term employment success could be dependent on and to develop long-term strategies on the basis of these considerations.

At least three aspects deserve particular attention with regard to the longer-term employment trend:

1. Coping with structural change

In times of globalisation and the technological revolution, the total number of jobs will be higher in the long run, if there are fewer persistence tendencies and resistance strategies, if fewer old jobs are subsidised and protected from competition, and if the necessary structural change is pushed ahead more actively, more adaptably and more rapidly with flexibility, innovations and investments. The measures to speed up the change (so-called structural reforms) include:

- further privatisations and deregulations of the goods markets with the aim of releasing innovations,
- adapting the social system and labour law to a more flexible working world with the aim of creating new scope for action for workers and firms,
- focussing the support for new businesses on expanding industries, with the aim of opening up new markets,
- building up and expanding human capital with the aim of achieving life-long employability even with occupational mobility and mobility between firms.

Such structural reforms touch on vested rights and are therefore not easy to carry through. International comparisons could show in this context whether there is necessarily the classical trade-off between efficiency and distribution or whether necessary structural reforms can actually be implemented in such a way that an adequate level of social protection is maintained (example: Flexicurity).

2. Employment possibilities for less competitive workers (in particular the low-skilled)

On the way to a permanently high employment rate it is not possible to ignore the labour market problems of less competitive workers. Projections of the future qualification demand suggest that the proportion of low-grade jobs is likely to continue shrinking. There would thus be even fewer entry jobs and permanent jobs available for the labour market's problem groups than there are today. Thus in the foreseeable future, too, a permanent mismatch as regards qualifications is emerging at the lower end of the productivity scale.

Supply-side and demand-side reasons are cited for the employment problems of less competitive workers. The loss of low-grade jobs is prominent in the demand-side argumentation: increasing automation, the intensification of the international division of labour, overly high statutory non-wage labour costs or the lack of a downward wage disparity are held responsible for this. The supply-side argumentation, on the other hand, assumes that low-grade jobs are available but that they are not being filled, or at least not quickly enough. The supply-side argumentation takes account of a lack of incentive to work or an inadequate employability of long-term unemployed people.

Two therapies are discussed in the employment-policy debate which at first sight seem to be independent of one another: firstly there are pleas for more efforts with regard to education policy and secondly for more low-paid work. Increased efforts in education and training are aimed at countering from the supply side the qualification-related mismatch that can be observed at present and is expected in the future. Thus it would be possible to try to include subsequent age cohorts in education to a greater extent and step by step to replace less qualified cohorts. Here first of all the problem of timing arises, since it takes time for successes to become visible. Secondly it is necessary to ask whether all mismatch problems can really be overcome by more education and training alone and whether an education and training campaign would not have to come up against limiting factors.

The other therapy, that is the improvement of basic conditions for low-paid employment, concerns above all developing work-intensive services and goods. This strategy raises other questions. Firstly, effective incentives to work for low-paid employment are incompatible with more generous transfer payments and extensive social security. If one wanted to make the incompatible compatible by means of wage subsidies, countries with fully developed social security could expect exorbitant fiscal costs and considerable false incentives could not be ruled out. Secondly the interaction between payment and individual decisions regarding education and training seem to be of importance here. Only if low-paid work made upwards mobility possible would desired education efforts not be restricted.

These considerations make it clear to some extent what interdependencies there are between education policy, social policy and collective bargaining policy. Here, too, international comparisons could help in the search for integrated solutions.

3. *Consequences of the demographic change*

The demographic change is a challenge for virtually all western industrial countries. Germany can be seen as a good example of this. Whereas the labour supply in the country as a whole is likely to change only insignificantly until the year 2010, in the subsequent 30 years a huge drop is to be expected. The supply of labour could fall by more than one quarter to about 30 million people by 2040. A higher level of labour force participation among married women, younger and older people, together with a level of immigration which is tenable for open economies would slow down the decline but would not be able to halt it. The ageing associated with the decline in the population and the labour force poses new problems for the economy and society. After times of high unemployment there is a threat of shortages of skilled labour not only on occupational or regional labour market segments, there could even be a general shortage of labour. The main priority for avoiding staffing bottlenecks in this respect is the extension of a system of further training that is geared towards life-long learning. In addition to this considerations should already be made today about making full use of employment reserves (older people, women, foreigners, part-timers, those in initial vocational training), to avoid being surprised some day by changed problem situations. The western world will have to prepare itself for increasing cross-border competition for qualified employees. It will be important for the countries and respective employers to be as attractive as possible for the most highly qualified workers.

In the course of the demographic change, it is impossible to avoid changes of direction in the financing of the social state, too. For under status-quo conditions it will be necessary to use an increasing part of the income for the social security systems, in particular for old-age pensions. In addition to a collective protection, it will be necessary to reinforce people's personal responsibility for making retirement provisions. But also a higher level of labour force participation would be a possible way to ease funding problems. In view of increasing life expectancy, one option for shouldering the financial burden would be an extension of the number of years that people work: first it would be necessary to strive for an earlier entry into working life by means of reforms in the education and training system. A later exit from the labour force could be achieved by raising the retirement age and restricting early retirement regulations. Furthermore targeted immigration could have a similar effect.

Summary

Employment problems can be solved in the longer run, too, if the future is not understood as fate but as a task which can be shaped. Nothing is more certain than change. Those responsible would do well to prepare the economy and society for the necessity for great adaptability and a willingness to be flexible.

2 **Employment-policy successes with different framework conditions and concepts³**

Are there constant "model countries"?

Again and again ranking lists intended to document the success or lack of success of individual countries appear in economic literature. On the basis of several criteria, the countries are categorized, compared, and then put into an order using more or less complex

³ This section was written by Heinz Werner.

methods. This ranking, or as it has recently been termed, benchmarking, shows that the only thing which is constant is the change in the "success" over time.

If a ranking list of countries with successful employment policy had been drawn up in the 1980s, it would have looked very different from the way it would look today. Japan would have been at the top of the list. Japanese organisation of work, the co-operation between the Ministry of Planning and the economy, in particular the banks, was highly praised. Germany, too, could have been found in the top group at that time, however. The Netherlands, Denmark or the United Kingdom would have been at the lower end of the ranking. Even the USA was experiencing a labour market crisis in the early 1980s, with an unemployment rate of 10%.

In the meantime the situation has reversed. Japan is in a state of economic crisis, the USA is in its tenth year of a persistent economic upturn. Unemployment there has dropped to its lowest level in the last 30 years. But in a number of European countries, too, unemployment has fallen and employment has risen. In this respect it is worth taking a look across the borders. What mechanisms have played a role in the labour market success? What conclusions may be drawn from this?

Is a high level of employment necessary?

The subject "ways and means for more employment" has been at the centre of public debate for years now. This is no accident:

- The employment rate tells us a lot about how well an economy is managing to create employment possibilities for all of its citizens who wish to work. Low employment rates generally indicate that there are large unused reserves of people who are able and willing to work.
- The ageing of the working population and the increasing life-expectancy in the EU countries will intensify the pressure on the funding of the social systems. However, the employment rates, in particular those of older men, have been falling steadily in the EU. A higher level of employment would help to reduce the financial difficulties in the social insurance system.
- If as many people as possible are integrated in employment, the social cohesion in a society is strengthened. People who actively participate in the working world, themselves enjoy the resulting prosperity.
- A high level of employment also promotes the employment of women and thus contributes to the equality of the sexes.
- For many people work is an "object of value in itself". Without work they would have to do without an element which gives meaning to their lives.

Twenty years ago the USA and the EU still showed similar employment rates. In the meantime the USA's rate is 14 percentage points higher. If the US rate is applied to the EU, then the difference in purely mathematical terms is equivalent to some 34 million jobs. But there are also considerable differences between the EU countries. Denmark shows the highest and Spain the lowest employment rates. Germany, France and Italy, which make up 50% of the entire employment in the EU, have comparatively low employment rates.

What is meant by "successful employment policy"?

A country is usually considered to have successful employment policy if employment is rising steadily or the employment rate has already reached a high level and therefore unemployment is falling permanently or is already low.

Both in the case of unemployment and that of employment it is necessary to ask what kind of unemployment and employment it is: does the given unemployment rate under boom conditions, for example, already represent the full employment rate? Is the unemployment structural or cyclical? The OECD defines structural unemployment as the proportion of unemployed people who would also not be able to find work in an economic upturn and therefore can not be influenced directly via macroeconomic policies. Structural unemployment is more difficult to eliminate than cyclical unemployment and should be assessed more negatively in a comparison of countries (with otherwise equal unemployment rates).⁴

Questions also crop up in the case of the employment rate or labour force participation rate. What kind of jobs are involved: full-time, part-time, permanent, fixed-term? If employment is counted for instance by the number of people, the result can be a misleading picture if the part-time rates vary considerably and have developed in very different ways. For comparison purposes, it would be better for example to express employment in terms of the volume of work, for instance as the sum of the working hours performed by all the workers in one year. Furthermore it is necessary to ask whether a person can earn a living from his or her work. Or are many working people in danger of becoming working poor?

For closer examination, some countries are selected in the following section whose unemployment has fallen from a comparatively high level in the past to a low level and whose employment has increased at the same time. For some time now these countries have been USA, GB, NL, DK. In France and Germany a similar development did not begin until later on and is still in full swing (cf. graphs in section 3).

What conclusion can be drawn from the international experiences?

The IAB studied a number of countries which have managed to create a turnaround on the labour market. As a summary from these countries it can be established that there are different ways to achieve more employment.

In the countries examined here, there are in principle two opposing ideas: the pronounced market-economy orientation of the USA and Great Britain and the more strongly corporatist, consensus-based model of the continental European states of the Netherlands and Denmark. France and Germany lie between these two, although once again with different forms. In Germany the degree of organisation in trade unions is high and the collective bargaining sovereignty of the two sides of industry carries a great deal of weight. In France, in contrast, comparatively few workers are members of a trade union and the government can often

⁴ Unfortunately there is no direct measure of structural unemployment. One possibility is to determine the so-called "non-accelerating inflation rate of unemployment". This is calculated using econometric models whose equation systems portray the relationships of the economy and the labour market. By means of simulations the level of unemployment is ascertained from which a further economic recovery would not reduce unemployment but would push up inflation. This would be the case if the available production capacities were being used to the full. Even in the case of capacities being used to the full, unemployment would still exist. A reduction of this unemployment would then only be possible via a change in the basic conditions e.g. a reduction in working hours, a slowdown in the progress of productivity, training measures, or capacity-expanding investments.

intervene directly in the events on the labour market. This occurs for instance with working time. Since the beginning of 2000 the French working week has been reduced by law from 39 to 35 hours. In the Anglo-Saxon countries a reverse development in the effective working hours can be detected: they are increasing steadily.

In the USA and Great Britain the trade unions do not play a large role in wage determination. Wage disparity is high, protection against dismissal is not very strong, employment contracts are negotiated predominantly at company or individual level. The labour market therefore has a high degree of flexibility. The Netherlands and Denmark are characterised by a high degree of organisation in trade unions, low wage disparity and high expenditure on labour market policy measures, which is also reflected in high earnings-replacement benefits in the event of unemployment (unemployment benefit). Nevertheless both of the countries achieve a high degree of flexibility: the Netherlands via the broad distribution of part-time work, temporary work and fixed-term employment, and Denmark because of the low level of job protection and the obligation of unemployed people to take up employment or to participate in a training scheme. This "supporting by making demands" is accepted socially because the earnings-replacement benefits in the event of unemployment remain very high. According to studies conducted by the OECD, France and Germany are among the most heavily regulated countries, although here too some forms of flexibility have arisen, e.g. the large degree of temporary work via employment agencies and fixed-term contracts in France and the 630-DM-jobs in Germany.

This shows that there are no patent remedies and that it would therefore be absurd to copy models and systems. Each country has its own background of history and traditions and a different scale of social values from which changes have to be developed. Nevertheless a look across the frontiers also shows certain common features for employment policy success:

- A **comprehensive macroeconomic approach** was important for the labour market success. Experience shows that reforms have to be co-ordinated and e.g. matched to fiscal and social policy. Isolated partial reforms also only result at best in partial success, either in certain labour market "niches" or for a limited time. Thus subsidising jobs for certain groups of people is not enough to raise the level of employment on balance, as deadweight and displacement effects occur.
- A **favourable framework** for both investment and consumption was created. e.g. by means of a temporarily deficitary fiscal policy and an expansionary monetary policy. It was only when the economic situation improved that the budgets were to be consolidated. In almost all of the countries a fiscal policy stimulus was at the origin of the economic upturn.⁵ In order to stimulate consumption for instance direct taxes were lowered. This also includes raising the tax thresholds for low incomes. For a partial balance it is also possible to increase value added tax or "green taxes", as was done in Denmark or the Netherlands.
- The markets for goods and services were liberalised. One example of this is Great Britain, which pushed ahead privatisation in the 1980s and 1990s. One problem with this is that in general a considerable decline in employment as a result of redundancies has to be accepted at first.

⁵ Cf. on this issue the country reports in *Mitteilungen aus der Arbeitsmarkt- und Berufsforschung* 2/1998. Also e.g. OECD (1998): *Economic Outlook*, Paris, p. A33 ; Thus the national deficits - measured in terms of GDP - reached a maximum in the USA in 1992, in Great Britain in 1993, in the Netherlands in 1990 and 1992, in Denmark in 1993. Since then the deficits have been falling sharply. For comparison purposes, in Germany a maximum was reached in 1996.

- **Decentralised systems of wage determination** were used to try to take better into account circumstances in certain regions and companies. This is inherent in the countries which are more market-economy-orientated, as employment contracts are often negotiated individually or at enterprise level. Even in the Dutch and Danish labour markets, which are strongly characterised by collective bargaining, ways to increase flexibility with regard to working hours or remuneration have been increasingly introduced into the wage agreements in order to be able to take account of local/enterprise needs.
- **Moderate wage increases** facilitate employment growth. According to OECD documents, real wages in Denmark and the USA remained largely stable during the first half of the 1990s. In the Netherlands they rose by only 3.3% in this time, whilst they increased somewhat more in Great Britain. It must be taken into consideration, however, that the increases in Great Britain started out from a comparatively low wage level.
- In a number of countries so-called "**employment pacts**" or "**alliances for work**" made a considerable contribution towards the success on the labour market (e.g. NL, DK, Irl.). These alliances for work served to set out a common co-ordinated strategy by the key players on the labour market, in other words above all the two sides of industry and the government. These pacts were developed in the awareness that something had to be done jointly against the crisis on the labour market and that short-term actions alone were not enough. Such pacts were therefore supported by a broad spectrum of the population and the political parties. Basically three aims were intended to be met in this way: improving national competitiveness, combating unemployment by means of more employment, and reorganising the budgets. One key characteristic was the setting of wage guidelines covering several years, which planned for moderate wage increases. The latter formed the basis of a stability-orientated macroeconomic policy with low inflation and low interest rates. The success of the wage restraint did not become apparent immediately but took some time. There were successful alliances for work above all in smaller countries.
- This raises the question as to whether **smaller countries** are at an advantage. Smaller countries are generally more homogeneous. Moreover the decision-makers know each other. They can meet more or less regularly as they do not have far to travel. The institutions are usually concentrated in the capital city. In addition to this smaller countries are used to adapting. They have always had to adapt to the larger countries. The necessity for changes is therefore more likely to be accepted.

With regard to the employment pacts it would be possible to set up the thesis that central social pacts are less suitable as an instrument of employment policy the larger the economy is. Only in smaller countries is it guaranteed that the representatives of those affected by social pacts are also represented at the round table. General wage restraint as a fundamental element of employment pacts in smaller countries (NL, Ireland, Finland, B, Portugal) could hardly be carried through in larger countries. There is something to be said for this argument. But employment pacts are also possible in larger countries, especially at local or enterprise level, which facilitate differentiations according to industries and firms in accordance with the productivity development.

- According to a study by the OECD⁶ it is generally not possible to determine any clear connection between the degree of labour market regulation and the level of unemployment or employment. However, it is possible to influence its structure in this way. Thus in countries with strict regulations, unemployment is generally lower for male workers of the best working age (25 – 45 years of age), but higher for other groups, in particular for young workers. Workers in the middle age group are therefore better protected.

In a heavily regulated labour market there are fewer movements on the labour market:

⁶ OECD (1999): Employment Outlook, Paris, p.47 ff.

both the duration of employment relationships and the periods of unemployment are longer on average. Comparatively fewer workers are affected by unemployment in one year. Instead, there is a greater likelihood of remaining unemployed for longer than a year. In an economic upswing employment growth is slowed down, in a downturn the employment reduction is dampened. For a less heavily regulated labour market the opposite is true.

These results agree to a large extent with previous OECD studies. According to these, it is not sufficient simply to deregulate the legal employment protection regulations in order to have success in employment policy. But deregulation and liberalisation create the conditions for increasing the effectiveness of other employment-policy interventions. They are likely to be particularly promising when a whole set of measures is tied together:

- By means of **low non-wage labour costs**, it was possible to reduce the costs of the factor of labour with a not unproblematic consequence for social security, since low contribution levels also result in low benefit entitlement levels unless the social system is funded partially or entirely via taxes, as is the case in Denmark. In this respect different positions regarding the role of social security (e.g. in the event of unemployment) can be seen between the Anglo-Saxon and the continental European countries. In the Anglo-Saxon countries it is more of a basic protection in case of need, which only ensures survival. In the continental European countries the principle is more one of maintaining as comparable a living standard as possible for a certain period at the onset of the risk.
- A certain degree of **wage disparity** is necessary, whereby there are considerable differences between the countries studied here. It must be taken into consideration that smaller countries with relatively homogeneous structures can only afford a comparatively low level of wage disparity. Larger countries with considerable regional differences and differences in economic structure and education/training, such as the USA or Great Britain, display a considerable wage disparity.

In both of these countries this has contributed to the increase in employment, especially at the lower end of the wage scale: higher earners can request more simple, work-intensive services. However, problems can not be ruled out where wage levels are determined purely in line with market forces. A considerable degree of 'working poor' can be the result. In the USA, for instance, approximately 15% of the population lives below the poverty line. In Great Britain the proportion of people categorised as poor according to EU criteria is, at 22%, the second highest in the EU, the figure among children is the highest in the EU, at 32%.

In particular low-skilled workers in the industrial countries are affected by labour market problems (and by wage pressure), because of technological change and the globalisation of the economy. The countries studied here have responded to this in different ways. Thus in the USA and Great Britain there is a negative income tax (USA: Earned Income Tax Credit; GB: Family Credit) to top up low earnings. In order to promote the employment of the low-skilled, the continental European countries have introduced reductions in social insurance contributions. There are also training measures or wage cost subsidies of various types.

- Finally what is also characteristic are the differences in the focus of **labour market policy**. In the market-economy-orientated countries, the USA and Great Britain, labour market policy – including earnings-replacement benefits in the event of unemployment – does not play a major role.⁷ This results in a pressure to take up employment, even in

⁷ The expenditure on labour market policy measures in 1995/96 amounted to 0.5% of the national product in the USA, 1.8% in Great Britain. Of this approx. three fifths went on unemployment benefit, which is comparatively low in both countries. In contrast with this the expenditure on labour market policy in Denmark stood at 6.6% of GDP and in the Netherlands at 4.8%. As a comparison Germany: 3.8%. Cf. OECD (1997): *Employment Outlook*, Paris

poorly paid work. In contrast with this, among the OECD countries Denmark and the Netherlands spend a comparatively large amount on labour market policy. In this context, however, it must be pointed out that about two thirds of the expenditure relates to so-called passive measures, above all on benefit payments in the case of unemployment. A certain pressure is exerted on the unemployed, however, to take up employment or start a course of training.

To sum up it can be seen that there is a certain diversity of ways to increase employment. Therefore there are no model countries whose approaches can simply be copied as a kind of "patent remedy". The methods used to raise employment must always be seen against the traditional and historical background of the particular country. Against this background, scales of social values have developed which in turn have resulted in priorities being established e.g. in the development of the social systems. Nevertheless a look across the frontiers has shown common features for success in employment policy, and has at least pointed out the areas that are important for success on the labour market.

Excursus: Consequences of different wage-replacement benefits in the event of unemployment

In Great Britain and the USA earnings-replacement benefits in the event of unemployment are very low and are only paid for a short period. In the USA, for instance, unemployment benefit only amounts to 25% - 35% of the last wage and is paid for a maximum of 26 weeks (as is also the case in GB). This results in a kind of compulsion to work. This is why long-term unemployment is also low, since if necessary people will also accept a poorly paid job in the hope that they will be able to move up again when the employment prospects improve. This is easier in the USA than here in Germany, since in the USA there is no stigma attached to taking up a job temporarily for which one is actually over-qualified. An application of US conditions to Germany is not being considered seriously by anybody. It would already be difficult for the reason that there are not enough low-grade jobs here. These are concentrated in many cases in the 630-DM-jobs, which, as is well known, are not full-time jobs, but constitute "marginal part-time work". In the USA, with its different labour market system, there are jobs of the most varied types. In Germany many low-grade jobs have been cut as part of rationalisation programmes (above all in the manufacturing industry) or they have dropped out of the regular labour market and can often be found in the black economy.

In the Netherlands and Denmark unemployment benefits are high. In return a "carrot and stick" policy is pursued in which a wide range of employment and training schemes are offered, but at the same time a certain pressure is exerted on the unemployed to take up work: this can occur by means of a stricter interpretation of what is a 'reasonable' job, the requirement that the unemployed person regularly proves his/her job search activities; the organisation of individual advisory and activation plans, or the obligation to take up a state-subsidised job or participate in a training scheme. All in all a trend of "welfare to work" can be detected; which means that one should be better off working than drawing benefit payments.

The combination of social protection in the event of unemployment and pressure to take up work or take part in an employment or training scheme makes this regulation more acceptable to society. Taken alone such an approach does not bring about any improvement in the labour market situation, as no additional jobs are created. From the point of view of reducing unemployment, however, it does make sense if appropriate jobs are available. This is the case when the labour market is improving in general, when state-subsidised employment can be

offered (job-creation measures or other forms of employment subsidy), or when a low-grade sector is already in existence (USA, GB) or is being promoted. In all other cases this measure only affects the distribution of the unemployment: the order of the people in the "queue" of unemployed is altered. This can by all means be useful when unemployed people are "reactivated" and it is possible to prevent them from slipping into long-term unemployment. Experience shows that the longer an individual is unemployed, the more difficult it is for him/her to get back into work again.

3 Figures and graphs on the labour market development in selected countries (The figures and graphs were prepared by Ingeborg König)

Figure 1

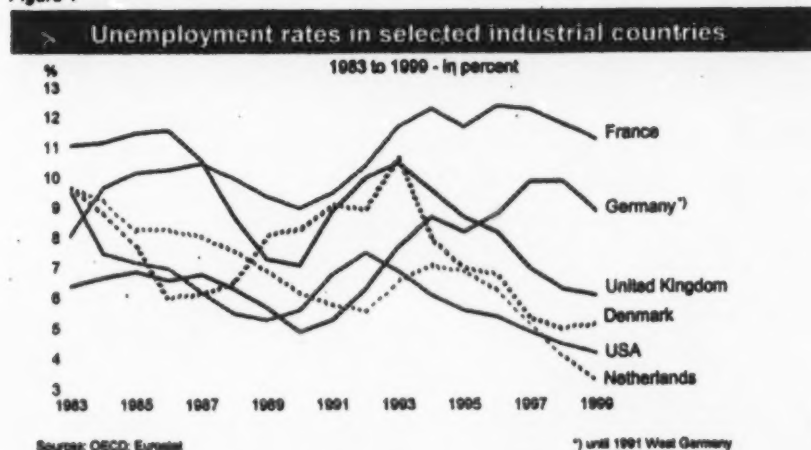


Figure 2

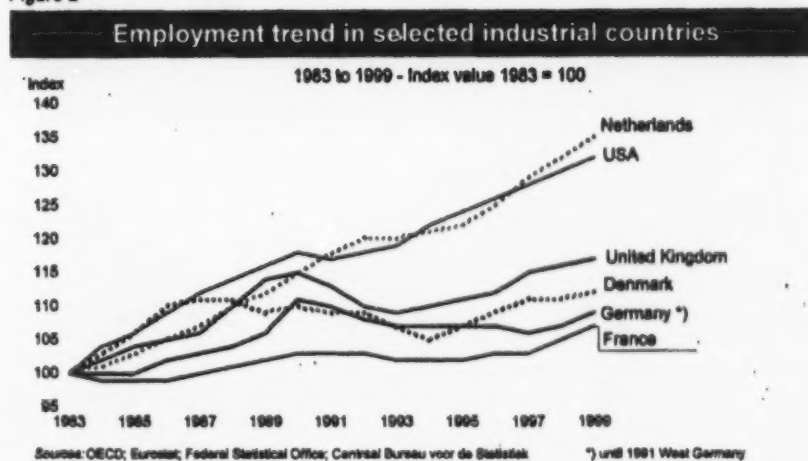


Figure 3



Figure 4

Gross domestic product and persons in civilian employment

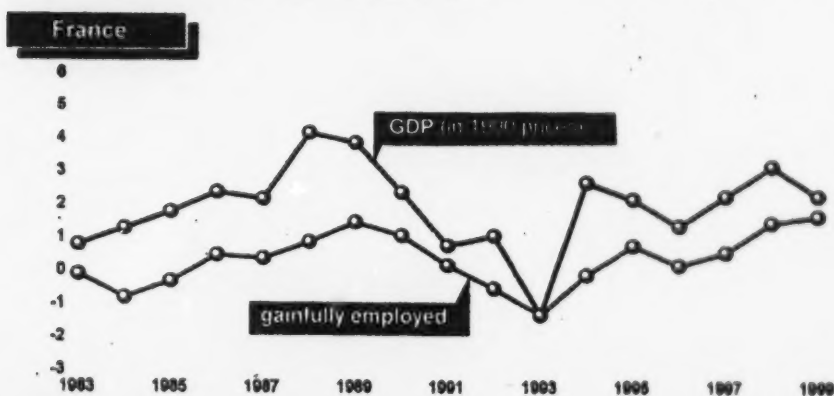
- annual rates of change in percent -



Sources:
 OECD (2000): Labour Force Statistics 1979-1999; OECD (1999): National Accounts, Vol. I, 1980-1997;
 European Commission (1999): European Economy No. 68



West Germany
 Sources:
 OECD (2000): Labour Force Statistics, various years; Federal Statistical Office from 1991 (revised employment figures); European Commission (2000): European Economy No. 70

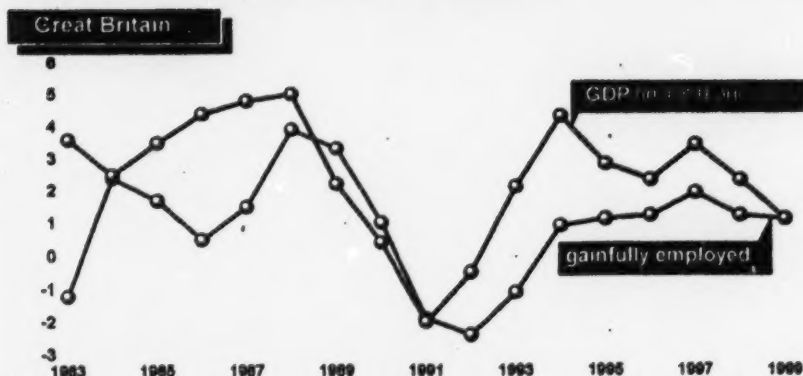


Sources:
 OECD (2000): Labour Force Statistics 1979-1999; OECD (1999): National Accounts, Vol. I, 1980-1997;
 European Commission (1999): European Economy No. 68

Figure 4 cont.

Gross domestic product and persons in civilian employment

- annual rates of change in percent -



Sources:
OECD (2000): Labour Force Statistics 1978-1999; OECD (1999): National Accounts, Vol. I, 1960-1997;
European Commission (1999): European Economy No. 68



Sources:
Centraal Bureau voor de Statistiek; OECD (1999): National Accounts, Vol. I, 1960-1997;
European Commission (1999): European Economy No. 68

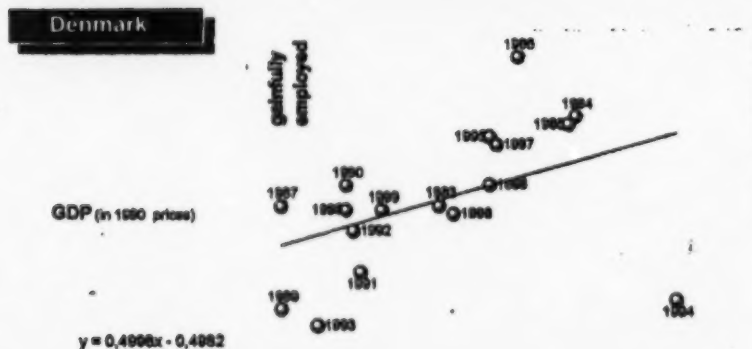


Sources:
OECD (2000): Labour Force Statistics 1978-1999; OECD (1999): National Accounts, Vol. I, 1960-1997;
European Commission (1999): European Economy No. 68

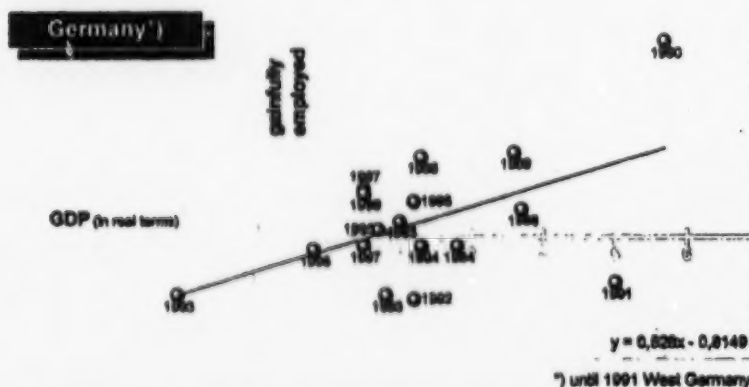
Figure 5

Growth rates of GDP and civilian labour force

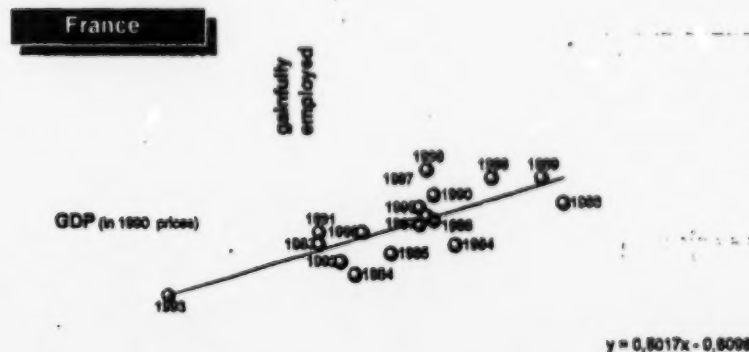
- annual rates of change in percent -



Sources: OECD (2000): Labour Force Statistics 1979-1999; OECD (1999): National Accounts, Vol. I, 1960-1997; European Commission (1999): European Economy No. 68



Sources: OECD: Labour Force Statistics, various years; Federal Statistical Office from 1991 (revised employment figures); European Commission (2000): European Economy No. 70

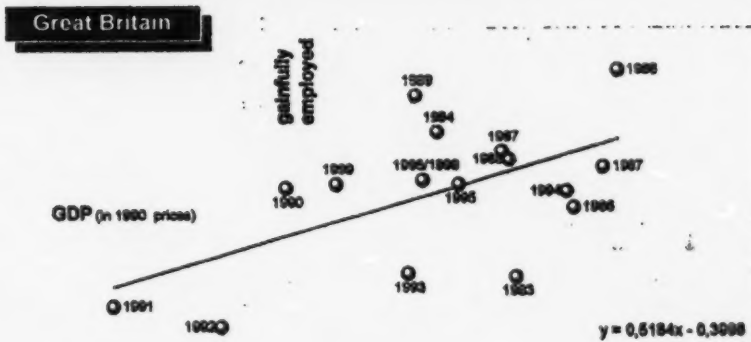


Sources: OECD (2000): Labour Force Statistics 1979-1999; OECD (1999): National Accounts, Vol. I, 1960-1997; European Commission (1999): European Economy No. 68

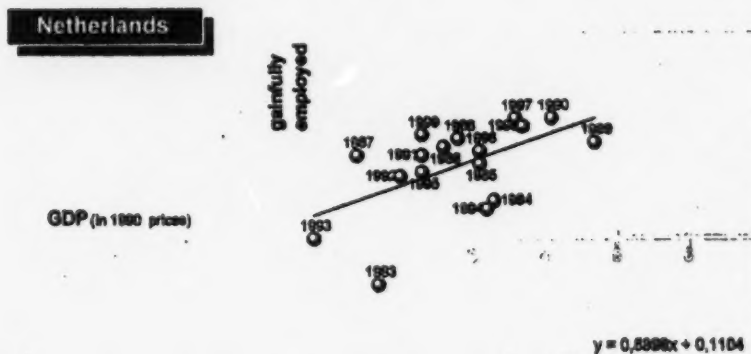
Figure 5 cont.

Growth rates of GDP and civilian labour force

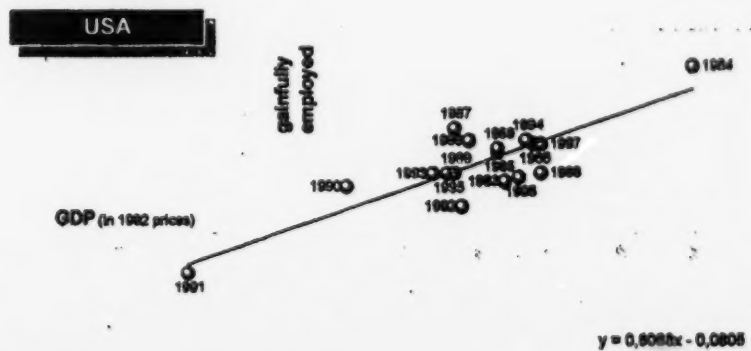
- annual rates of change in percent -



Sources: OECD (2000): Labour Force Statistics 1979-1999; OECD (1999): National Accounts, Vol. I, 1960-1997; European Commission (1999): European Economy No. 68



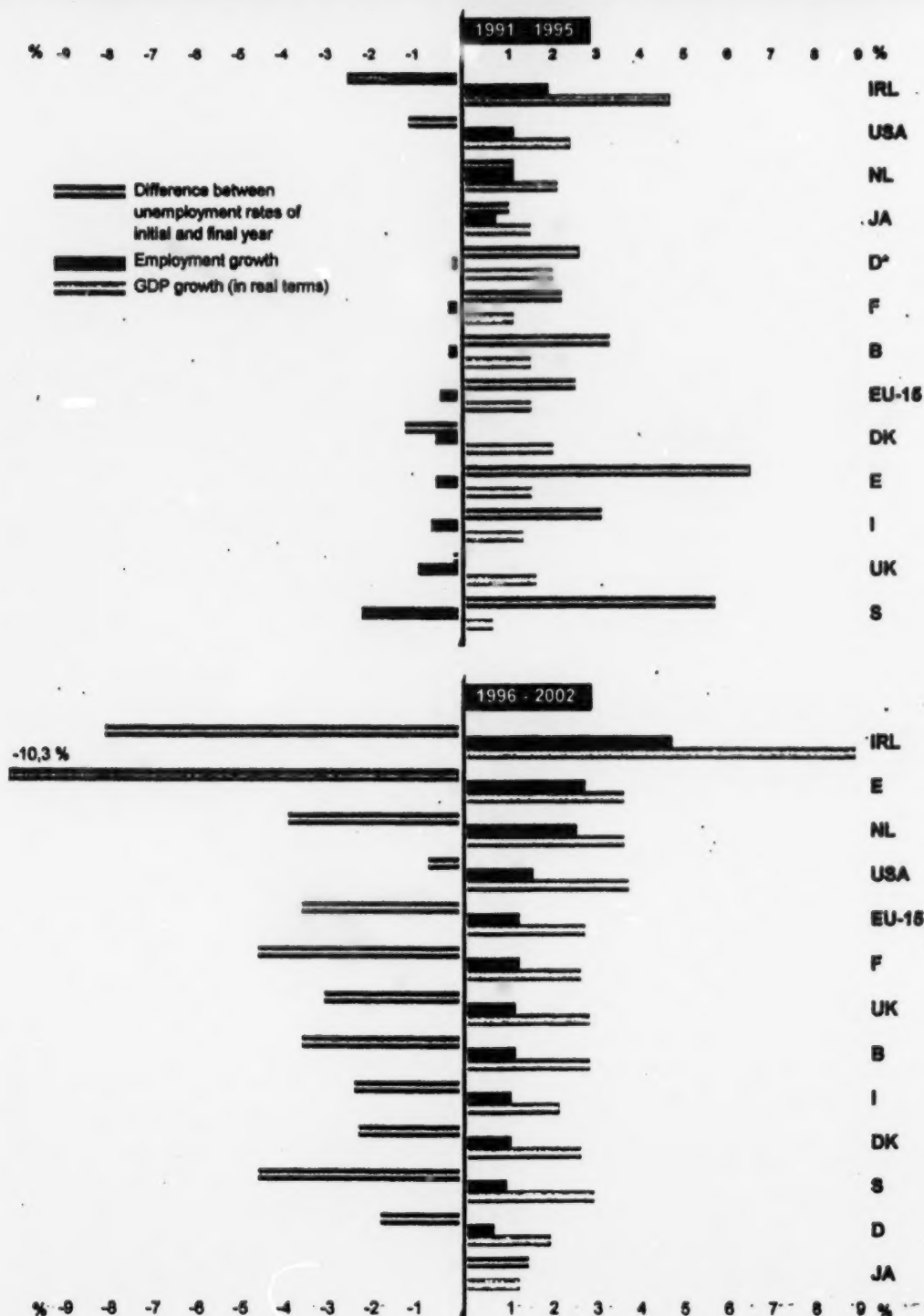
Sources: Centraal Bureau voor de Statistiek; OECD (1999): National Accounts, Vol. I, 1960-1997; European Commission (1999): European Economy No. 68



Sources: OECD (2000): Labour Force Statistics 1979-1999; OECD (1999): National Accounts, Vol. I, 1960-1997; European Commission (1999): European Economy No. 68

Figure 6

Economic growth, employment growth and change in unemployment
in the EU States, USA and Japan



Note:
2000 to 2002 estimates; until 1991/1992 West Germany only

Source: European Commission (2001): Spring Forecasts

**Economic growth, employment trend and unemployment rate
in the EU States, USA and Japan 1986 - 2002**

	1986-90	1991-95	1996-02	1999	2000*	2001*	2002*
Belgium							
GDP growth (in real terms)	3.1	1.5	2.8	2.7	3.9	3.0	3.1
Employment growth	1.0	-0.2	1.1	1.3	1.7	1.3	1.2
Unemployment rate	8.7	8.5	8.1	8.8	7.0	6.5	6.1
Denmark							
GDP growth (in real terms)	1.3	2.0	2.6	2.1	2.9	2.1	2.4
Employment growth	0.1	-0.5	1.0	0.9	0.8	0.5	0.5
Unemployment rate	6.4	8.6	5.2	5.2	4.7	4.6	4.5
Germany **							
GDP growth (in real terms)	3.4	2.0	1.9	1.6	3.0	2.2	2.6
Employment growth	1.5	-0.1	0.6	1.1	1.5	0.7	0.9
Unemployment rate	5.9	7.3	8.5	8.6	8.1	7.8	7.1
Greece							
GDP growth (in real terms)	1.2	1.2	3.7	3.4	4.1	4.4	4.8
Employment growth	0.7	0.6	0.9	-0.7	1.2	1.4	1.6
Unemployment rate	6.6	8.3	10.5	11.7	11.0	10.5	9.9
Spain							
GDP growth (in real terms)	4.5	1.5	3.6	4.0	4.1	3.2	3.3
Employment growth	3.3	-0.5	2.7	3.5	3.3	2.2	2.2
Unemployment rate	18.9	20.9	16.6	15.9	14.1	12.8	11.9
France							
GDP growth (in real terms)	3.3	1.1	2.6	2.9	3.2	2.9	2.8
Employment growth	0.9	-0.2	1.2	1.8	2.0	1.7	1.5
Unemployment rate	9.8	11.1	10.5	11.2	9.5	8.5	7.8
Ireland							
GDP growth (in real terms)	4.6	4.7	8.9	9.8	10.7	7.5	7.1
Employment growth	1.1	1.9	4.7	6.1	4.7	2.9	2.4
Unemployment rate	15.5	14.5	6.6	5.6	4.2	3.8	3.5
Italy							
GDP growth (in real terms)	2.9	1.3	2.1	1.6	2.9	2.5	2.7
Employment growth	0.9	-0.6	1.0	1.2	1.5	1.3	1.1
Unemployment rate	9.5	10.1	10.9	11.3	10.5	9.8	9.3
Luxembourg							
GDP growth (in real terms)	6.4	5.4	6.0	7.5	8.5	5.6	5.5
Employment growth	3.2	2.7	4.0	5.0	5.5	3.9	3.6
Unemployment rate	2.1	2.5	2.4	2.3	2.2	2.0	1.8

* 2000 - 2002 estimates

** until 1991/92 West Germany

Source: European Commission (2001): Spring Forecasts

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Table continued:

Economic growth, employment trend and unemployment rate in the EU States, USA and Japan 1986 - 2002							
	1986-90	1991-95	1996-02	1999	2000*	2001*	2002*
Netherlands							
GDP growth (in real terms)	3.1	2.1	3.6	3.9	3.9	3.4	3.1
Employment growth	2.3	1.1	2.5	2.8	2.5	2.0	1.8
Unemployment rate	7.4	6.4	3.8	3.3	2.8	2.6	2.4
Austria							
GDP growth (in real terms)	3.2	2.0	2.5	2.8	3.2	2.5	2.6
Employment growth	0.7	0.2	0.5	1.4	0.9	0.5	0.4
Unemployment rate	3.4	3.7	3.9	4.0	3.7	3.4	3.2
Portugal							
GDP growth (in real terms)	5.5	1.8	3.3	3.0	3.3	2.6	2.6
Employment growth	1.1	-0.6	0.5	1.8	1.7	0.9	0.7
Unemployment rate	6.4	5.7	5.4	4.5	4.2	4.6	5.1
Finland							
GDP growth (in real terms)	3.3	-0.7	4.7	4.2	5.7	4.0	3.6
Employment growth	0.3	-3.8	1.9	2.1	1.5	1.5	1.1
Unemployment rate	4.1	13.3	10.9	10.2	9.8	9.1	8.4
Sweden							
GDP growth (in real terms)	2.3	0.6	2.9	4.1	3.6	2.7	3.0
Employment growth	1.0	-2.2	0.9	2.3	2.2	1.5	0.8
Unemployment rate	2.0	7.2	7.3	7.2	5.9	5.2	5.0
United Kingdom							
GDP growth (in real terms)	3.3	1.6	2.8	2.3	3.0	2.7	3.0
Employment growth	1.8	-0.9	1.1	1.1	1.0	0.5	0.7
Unemployment rate	9.0	9.5	6.2	6.1	5.6	5.3	5.1
EU-15							
GDP growth (in real terms)	3.3	1.5	2.7	2.5	3.4	2.8	2.9
Employment growth	1.4	-0.4	1.2	1.6	1.7	1.2	1.2
Unemployment rate	8.9	10.0	9.1	9.2	8.3	7.7	7.2
USA							
GDP growth (in real terms)	3.2	2.4	3.7	4.3	5.0	1.6	3.0
Employment growth	2.2	1.1	1.5	1.9	1.3	0.4	0.5
Unemployment rate	5.9	6.6	4.6	4.2	4.0	4.6	4.7
Japan							
GDP growth (in real terms)	5.2	1.5	1.2	0.7	1.7	1.0	1.3
Employment growth	1.0	0.7	0.0	-0.8	-0.2	-0.1	0.3
Unemployment rate	2.5	2.6	4.2	4.7	4.7	4.7	4.8

* 2000 - 2002 estimates

Source: European Commission (2001): Spring Forecasts

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